Airlines Promise a Return to Civility, for a Fee

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New York (AP) — Airlines are introducing a new bevy of fees, but this time passengers might actually like them.

Unlike the first generation of charges which dinged fliers for once-free services like checking a bag, these new fees promise a taste of the good life, or at least a more civil flight.

Extra legroom, early boarding and access to quiet lounges were just the beginning. Airlines are now renting Apple iPads preloaded with movies, selling hot first class meals in coach and letting passengers pay to have an empty seat next to them.

Once on the ground, they can skip baggage claim, having their luggage delivered directly to their home or office.

In the near future, airlines plan to go one step further, using massive amounts of personal data to customize new offers for each flier.

"We've moved from takeaways to enhancements," says John F. Thomas of L.E.K. Consulting. "It's all about personalizing the travel experience."

Carriers have struggled to raise airfares enough to cover costs. Fees bring in more than $15 billion a year and are the reason the airlines are profitable. But the amount of money coming in from older charges like baggage and reservation change fees has plateaued. So the airlines are selling new extras and copying marketing methods honed by retailers.

Technological upgrades allow airlines to sell products directly to passengers at booking, in follow-up emails as trips approach, at check-in and on mobile phones minutes before boarding. Delta Air Lines recently gave its flight attendants wireless devices, allowing them to sell passengers last-second upgrades to seats with more legroom.

And just like Amazon.com offers suggested readings based on each buyer's past purchases, airlines soon will be able to use past behavior to target fliers.

"We have massive amounts of data," says Delta CEO Richard Anderson. "We know who you are. We know what your history has been on the airline. We can customize our offerings."

Other airlines are experimenting with tracking passengers throughout the airport. In the future, if somebody clears security hours before their flight, they might be offered a discounted day pass to the airline's lounge on their phone.

Airlines have yet to find the right balance between being helpful and being creepy. So, for now, most of the data is being used to win back passengers after their flight is delayed or luggage is lost.

"We want to get back to a point where people feel like travel isn't something to endure, but something they can enjoy," says Bob Kupbens, a former Target executive and Delta's current vice president of marketing and digital commerce.

Most passengers select flights based on the lowest base fare. The online travel industry plays up that price sensitivity with sites named CheapOair.com, CheapTickets.com and InsanelyCheapFlights.com.

When airlines try to raise fares, they are met with resistance.

"Customers are very quick to either change travel plans, or use another carrier or not travel at all," says Jim Corridore, an airline analyst with Standard & Poor's Capital IQ.

In the past three years, airlines have tried to hike fares 48 times, according to FareCompare.com. During 29 of those attempts, bookings fell enough that airlines abandoned the increase.

Most fares today don't cover the cost of flying. While the average domestic roundtrip base fare has climbed 3 percent over the past decade to $361.95, when adjusted for inflation, the price of jet fuel has nearly tripled.

When oil prices spiked in 2008, airlines added checked baggage fees. Passengers still bought tickets on the base price and didn't think about the extra expense until the day of travel.

Now airlines are recasting fees as trip enhancements.

Travelers like Nadine Angress, of Mansfield, Mass., see the value. Her recent late-night US Airways flight home landed past six-year-old son's bedtime. She had to work early the next morning. So, for $30 she bypassed the baggage carousel and had the suitcase delivered.

"That was a very reasonable price to pay," Angress says. "It's making your life easier."

U.S. airlines collect more than $6 billion a year in baggage and reservation change fees. They also collect $9 billion more from selling extras like frequent flier miles, early boarding and seat upgrades. Together, the fees account for 10 percent U.S. airlines' revenue.

Fees provide airlines with another advantage: The Internal Revenue Service has said since they aren't directly related to transporting passengers, they aren't subject to the 7.5 percent excise tax travelers pay on base fares. Taxing fees would give the government an extra $1.1 billion a year to fund the Federal Aviation Administration, runway upgrades and air traffic control improvements.

Without the fees, experts say fares would be 15 percent higher.

"You're either going to go out of business or find a way to cover" your costs, says Robert E. Jordan, Southwest Airlines' executive vice president and chief commercial officer.

Southwest has held off charging for most checked bags. But it sells plenty of other add-ons.

Recently, it introduced a way for people at the back of the boarding line on some flights to cut to the front for $40. It's not a blockbuster seller — one person pays up every two flights — but with 3,600 daily flights, that nets $70,000 in extra daily revenue or $25 million a year.

Airlines now alter fees based on demand. United Airlines used to sell its Economy Plus extra legroom seats for one price per route. Today, aisle seats cost more than middle seats; prices are higher on popular flights.

That change in thinking has helped United increase fee revenue by 13 percent this year to more than $20 per one-way passenger.

Airlines are also starting to bundle items. Passengers purchase items they might not necessarily buy alone; it also simplifies the dizzying array of offers.

"I don't want you to have to do the math every time," says Rick Elieson, managing director of digital marketing at American Airlines.

American offers a package for $68 roundtrip that includes no change fees, one checked bag and early boarding. Delta is experimenting with a $199 subscription that includes a checked bag, early boarding, access to exit row seats and extra frequent flier miles on all flights a passenger takes between now and Jan. 5.

Airlines say the fees bring a sense of fairness to the system. Why should a passenger with a small carry-on subsidize a family of four, checking suitcases?

Jamie Baker, an airline analyst with JP Morgan Chase, likens it to a meal at a restaurant.

"The sides are not included in the price of a steak," he says. "Airline ticket prices should reflect the costs incurred by the individual passenger."

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